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PR-Prop-5-15

October 1, 1965
MW-M-1243

Dear Herb:

SUBJECT: Proposal: Questioned Cost
Sales Order No. 71945

We are submitting the attached proposal in an attempt to resolve costs questioned by your office in connection with a portion of the final audit of our Sales Order 71945. It is our understanding that additional costs questioned may evolve from the balance of the audit which will involve a test of material and labor transfers, travel and other journal entries.

At the beginning of the program, due to its size and security requirements we were required to set up a separate facility. The need for a separate cost center was discussed with the Contracting Officer and it was mutually agreed not to change the basis for absorption of overhead and the contract was negotiated accordingly. The subsequent inclusion of negotiated fiscal year overhead rates during the performance of the contract confirms this mutual agreement.

With regards to Capital Equipment, since the contract required approval of all items over \$500 and they were subsequently approved by the Contracting Officer we are of the opinion that we must only demonstrate a program requirement for any of these items under \$500 (e.g. accessories for equipment already authorized for local or field use, general purpose equipment etc). Even though a majority of the equipment in the secured facility was supplied by the customer Perkin-Elmer did provide most of the equipment in the open areas. Acquisition of field equipment was directed in accordance with Attachment B (copy attached).

Our understanding of the costs questioned indicate that these costs relate to allocability of costs (direct vs indirect) rather than cost disallowances and that your office concurs with this understanding. Therefore our proposal is contingent upon joint acceptance of reclassification of costs by both cognizant audit groups at Perkin-Elmer and we suggest that your office is the proper party to resolve this matter with the other group. For your information we have negotiated overhead rates through 31 July 1963 and we are about to negotiate fiscal 1964 rates. We assume that the subject overhead adjustment will be considered in our fiscal 1965 submission, even though the adjustment will not be booked until fiscal 1966, since the reclassified costs apply to prior years.

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October 1, 1965
MW-M-1243

We look forward to your acceptance or comments at your earliest convenience.

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Charlie

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Attachments

THE PERKIN-ELMER CORPORATION
Electro-Optical Division

STATINTL

September 30, 1965

TO: [REDACTED]

FROM: [REDACTED]

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SUBJECT: Final Settlement Proposal S.O. 71945

The following is our proposal for final settlement on Perkin-Elmer Sales Order 71945 (exclusive of any adjustments that may be necessary through your audit of Material and Labor Transfers, Travel Expenses and Journal Entries). The final page of this proposal contains a summary of the amounts questioned, and the amounts that we would consider for reclassification.

I. CAPITAL EQUIPMENT

Detailed studies of our Capital Equipment Procurement Approvals (items of an estimated cost of \$500.00 or more) indicate that the items under \$500.00 were shipped to the Field Site, (as required and authorized by Attachment B of the Contract) or were used as Accessory Equipment to the, already approved, Capital Equipment.

For the most part, any item that was shipped to the Field is documented by Shipping papers.

Further justification for charging these items directly to the Contract follow:

- (1) The items shipped to the Field will not be available for use at Perkin-Elmer for an extended period beyond the requirements of this Contract, and hence no other Projects can derive use of this equipment. The application of Field Service rate, which is devoid of Depreciation Expense further justifies use of Customer owned equipment.
- (2) The Accessory Equipment is a necessary item for the proper usage of the larger Capital Equipment. Once attached, or even just associated by its' use, this Accessory Equipment is no longer available for use by other Projects.

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- (3) The Security (which demanded a segregated area), size and schedule requirements of this Program further limited the utilization of Perkin-Elmer's Capital Equipment.

Therefore, it is our contention that all of the items (classified as "Capital Equipment") would be allowable as direct contract costs.

II. WIRE

While we agree with our past policy of charging wire to operating expense, we further believe; we are reasonably sure, you also agree, that most Accounting policies must have some flexibility.

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An exception to this policy is the procurement of gold wire. This wire procured [] at a cost of approximately [] an ounce is highly specialized, the purpose of which is classified; should not be categorized along with types of wire, procured from a commercial outlet, at a cost of about .06 a hundred feet.

We have determined that the cost of this "special purpose" wire was [] This represents [] of the questioned wire. The acceptable amount, for reclassification to operating expense, of [] is arrived at by applying [] to the "blown-up" cost of wire.

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III. CHEMICALS

In attempting to have more consistent Accounting practices we would be willing to concede a 100% reclassification of the blown-up cost of chemicals.

IV. CLEAN ROOM UNIFORMS

Consistency, being our general area of concern, we would be willing to reclassify 100% of the questioned amount. The amount questioned represents the actual amount charged to this contract; therefore, we do not concur to the using of the blown-up factor to this item.

While the above statements are true for this contract, it is evident that other succeeding Special Projects contracts have been directly charged for this expense; accordingly, we will reclassify this charge, and credit the contract.

V. ELECTRONICS & HARDWARE, TOOLS AND SUPPLIES

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A. Justification for charging [] of these items directly to the contract is explained by the following:

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- (1) These items, as required and authorized by contract, are shipped directly to the Field Site, which is documented by shipping papers.

The intent of this was to set up an initial stock of supplies, equipment and tools for a Field facility in order that they would be available for subsequent use by Field Personnel.

- (2) The Field Service Contract, which provided services at the out-of plant burden rate, came into being as of September, 1962. The Field Contract did not provide for these supplies, etc., instead, as originally intended, the burden of initial Field stockage was left to Sales Order 71945.

(a) Accordingly during F/Y 1963^{these} expenses represent of the total expenditures. This is best explained by noting the Field Service Contract "birth" date was 9/62, and then realizing this Contract was built from permanent P-E Field Personnel to the present total of

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- (3) The Out-Of Plant Burden Rate does not allow for those supplies, etc., so there could not be any reimbursement of these costs thru burden, and as indicated in the preceding paragraph, the Field Contract did not permit reimbursement thru a direct material charge.

- (4) Being reimbursed as a direct material charge under Sales Order 71945, and also charging full burden on the same order is equitable, and does not result in a "double-charge".

(a) The Full burden rate utilized on Sales Order 71945 only reimburses us for supplies etc., utilized at Norwalk operations.

In conclusion, this contract will only get charged for its' proper share of supplies, and no inequity has been "passed on" by charging those supplies as a direct contract cost.

STATINTL The calculation for a justification is as follows: STATINTL

Amount questioned of supplies, tools, etc.

Amount questioned of supplies, tools, etc.

% of F/Y 1963 to Total

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B. Justification for charging an additional directly to the contract for Tools, Supplies etc., used as accessories to Customer supplied, and acquired Capital Equipment, has been covered under the "Capital Equipment" justification.

VI. DEPOSITS FOR GAS CYLINDERS AND GAS EXPENSE :

A. Deposits for Gas Cylinders.

Some of the gas cylinders were shipped directly to the Field, and by not having control of their destiny (after the gas was consumed) we could not assure their being returned to Norwalk. Some of these cylinders were probably turned into base supply, and others were turned into a gas supplier at Field operations.

Since the number of containers that were shipped to the Field is not readily available, we propose to completely disregard of these costs as a direct contract cost or as a current operating expense.

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B. Gas Expense

This expense has been classified into two categories. The categories, and justification for their incurrence follows:

1. Helium - This type of gas is consumed directly in the deliverable equipment. Its' use, directly, effects

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Because this information is highly "sensitive", any further explanation, of the system, or the gases ultimate use, must be explained by oral discussion.

2. Other gases i.e., Nitrogen, Hydrogen, Co² etc. In order to be consistent with our present policies we will concur to a reclassification of these gases.

- (a) In all fairness to you, we believe that the "blown-up" gas expenses does not represent the amount that should be subject to reclassification.

A summary of the gases that were audited, and a calculation of the amount subject to reclassification follows:

-5-

Gas Expenses for period 1 July 62 to 31 July 63

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Total Questioned

\$

Since this represents a portion of the probable gas expense, the following calculation was made:

A. F/Y 1963 total purchases
Total Program purchases
% of F/Y "63 to total

B. F/Y 1963 gases subject to
reclassification

Total gases subject to re-
classification rounded

VII. RENT

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Of the [] questioned, we have specific approval for more than 95% of the individual items. The approvals are as follows:

- (1) ultrasonic generator [] covered under TWX #1062 and #1069.
- (2) Kern theodolite - [] covered under TWX #1086.
- (3) Carboflex equipment - [] covered under various TWX's.

The remaining items: vibration meter - \$50, 3 vibration pickups - \$116 and 16 mm motion picture camera - \$75, may be covered by other TWX's, but the cost of researching this information would exceed the amount of concession. However, if you feel that this is pertinent we will expend any efforts that you think may be necessary. For the reasons outlined above, we contend this item be allowed as an item of allowable direct contract cost.

VIII.

DIRECT LABOR CHARGES

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Our proposal for the allowance of [] of [] F/Y 1965 direct labor as direct contract costs is based upon the following:

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(1) A great proportion of [] effort was expended directly relating to the solving of technical problems for his contracts.

(2) His title "Branch Chief" was a stature symbol in order

to enhance his position in dealing with customers.

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- (3) While it is recognized, that a comparatively small percentage of [] labor had been expended on supervision, we have not overlooked the need, and in some cases the contractual requirement, for [] Technical abilities.

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In order that a proper reclassification be made, we must give credit to Sales Orders that [] charged.

We propose that this be accomplished by reclassifying all direct labor charged (less the "Labor" portion charged to HI-level Technical Support) for the second half of Fiscal 1965.

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THE PERKIN-ELMER CORPORATION
SUMMARY SCHEDULE OF PROPOSAL FOR QUESTIONABLE COSTS

PECO S.O. 71945

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<u>Category</u>	<u>Total</u> <u>Questioned Amt's</u>	<u>Blown-up</u> <u>Questionable materials</u>	<u>Amount Conceded</u> <u>for Reclassification</u>
I. Capital Equipment			
II. Wire			
III. Chemicals			
IV. Uniforms			
V. Electronics & Hardware			
V. Expendable Tools			
V. General Supplies			
V. Lab Supplies			
VI. Deposits on Gas			
VI. Gas			
VII. Rent			
Total Materials			
VIII. 			
Labor			
Overhead			
Travel			
Totals			

* Of material audit was found to be questionable; applying 4.0%
to total contract materials The "blow-up" questionable materials STATINTL
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** Individual line items were calculated by applying the same percent that the totals
bear to each other STATINTL

*** Your comments and/or approval of this proposal will be appreciated. STATINTL

This proposal is contingent upon the acceptance of
terms & conditions contained in the attached letter
from Charlie (MW-M-1243) dated October 1, 1965.

Electro-Optical Division

ATTACHMENT "B"

FIELD SUPPORT EQUIPMENT FOR SIX (6) SYSTEMS

Collimator with six (6) large flats to permit observation of oblique positions.

Tool, meters, etc

Elec. - mech. check-out consoles:

Configuration

Window

Hatch

Pilot control

Film viewing table and microscope

Film rewinds

Dollies, Lifts, Hoists, Stands

Desiccation Equipment

Power Cart

Cabinets, Benches, Vacuum Cleaner, Office Equipment

Special Clothing

Flight Test Instrumentation

Photographic Equipment and Supplies

Optical Test Apparatus

Strength Tester

Vacuum Tester

Cycle Tester

August 13, 1962
JH-M-430

Dear Wendell:

The establishment of the clean area requested in our twx no. 935 was discussed with you and your technical people during my visit on 25 July. The technical decision was that the clean area was necessary, however the extent of Headquarters participation in the cost was left open for negotiation. This letter will serve to furnish additional information in support of our request.

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Early in 1959 it became apparent that a separate facility would be required for the engineering, assembly and test phases of the program. At that time we extended our lease on the [] plant with the thought that one half of the plant area would be sufficient to house the program. Contract RE-518 was negotiated at this time to cover the rearrangement and equipping of the applicable half of [] plant. This work was completed for October '59 occupancy and the rear half of the building was set up as a Division machine shop. In the spring of 1960 it became apparent that the full area of the plant would be necessary for this program, the machine shop was moved out, and the rear half of the building was made suitable for the program at our expense.

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Of the equipment furnished by you under RE-518 and PR-8200 comprising a total value of the order of [] we can identify approximately [] as equipment peculiar to the items being furnished under PR-8200. About [] is equipment which will ultimately be shipped to the Area for use in the Peek building. The remainder will be held for later use on M & O and spares requirements. Thus your net investment here over the last three years approximates [] Our own investment in plant and equipment for use on government work over that period has been about [] of which [] can be identified in direct support of PR-8200. (This is itemized in attachment "A".)

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Items not specifically identifiable as in direct support of this program also contribute in large measure to its support. In addition to direct capital investment we lease approximately [] worth of machinery and equipment which is used to fabricate parts for your program as well as others. We believe that our support of PR-8200 as compared to other programs in progress is normal.

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Our specific request in regard to the Clean Room was in the amount of [] This included our standard G & A of [] percent on the estimated cost of [] This estimated cost covered three main categories as follows:

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Air conditioning, humidity, and dust control

Ceiling, lighting, and electrical

General construction

These are costs above the normally required lighting, heating, flooring, and wall treatment for the addition to the building if it were used for a stock room.

Questions raised during our last meeting regarding -a) the consideration which we would give for final title to the equipment and building improvements and -b) the ultimate disposition of the building can be answered as follows:

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a) In consideration for ultimate title we offer to complete the Clean Room as described in our memo dated 24 July 1962 from [] to [] for a total cost against PR-8200 of []

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b) Our purchase of the building at [] was made in the belief that the program under PR-8200 would continue for a number of years, and that a purchase by us would eliminate any possibility at a later date that leasehold extensions might be uneconomical or impossible. We expect upon completion of this program the building will be disposed of since it represents a decentralized operation with its attendant inefficiencies and expenses. We wish to point out that maintenance costs, taxes, depreciation, etc. on this building are shared by others through overhead. Had this program been of a less sensitive nature security wise, we would have integrated it into operations at our main plant and used some of the equipment and facilities on a scheduled basis with other programs. To the extent possible this is being done in machining, electronic sub-assembly, optical fabrication and testing. However security precludes final assembly and testing at any facility other than Conn. Ave.

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Since our meeting at your office on 7 August, we have reviewed the requirements regarding permissible particle size and find no substantial reduction in either specification or cost is feasible.

We believe the above requested support of the Clean Area to be justified and reasonable and solicit your approval at the earliest possible time.

ATTACHMENT "A"

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Machine Shop Move and Modification of Rear Half
of [] Bldg.

Sprinkler

Rental of special warehouse

Purchase of [] STATINTL

P-E equipment at []

Shell of addition

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Optical Shop Equipment

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Standard LIST OF PURCHASE ORDERS FOR ITEMS OF
CAPITAL EQUIPMENT NATURE UNDER \$500.
CONTRACT PR-8200

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<u>Purchase Order No.</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>	<u>Remarks</u>
68934		Riveter & Accessories		Special Air Riveter used because con- vention tools NG
68842		Scale		Precision scale for overhead lifting
68934		Drill & Hose		Part of Riveter
250		Fan		For GFE KH Huppest Furnace
69381		Disposal Unit		Burning of Security Waste
71958		Oscilloscope Camera		To make photos of glass, etc.
76609		Multi - Probe		Electronic testing of motors
75854		Microscopes		Optical Testing on Autocollimators
		Microscopes		Optical Testing on Autocollimators
77156		Calibration Check Unit		Strain gage for Structural Strength Test
80768		Random Noise Generator Installation Tool		For Measuring RFI To install huck fasteners on platform
96157		Seal Dry Mounting Press		Photo work & data reduction
97085		Portable Current Meter & Torrid		Test of Vacuum Windows
96249		Ion Pumps		Test of Vacuum Windows
96415		Force Gauge		Mfg. of Vacuum Windows
97078		Heaters		Mfg. of Vacuum Windows
97120		Tanks		In Resistance welder room to hold chemical.
87342		Vac Pump		Test of Vacuum Windows
87436		Bell Jar Assy.		Test of Vacuum Windows
89290		B&S Height Gage		Q.C. Inspection Tool
90034		Microscope		For measuring data reduction
90059		Microhm meter		For mfg. of vacuum windows

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Purchase
Order No.

Vendor

Description

Amount

Remarks

89425
34940
91612
91606Jato Air Fixture
Chairs and tables
" " "
DynamometerOptical Test
For clean room
" " "
For system Test

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SUB TOTAL

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Repairs to equipment and other capital items
under \$500. as per discussions

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67857
67952
71906Prakica Camera
Microscopes &
micrometers
AmplifiersQ.C. Inspection
Optical Check-outStabilization
Check-out of
Accelerometers76642
73110
76889
VariousOffice Supplies
Micrometers
Benches and legs
Clean room equipmentOptical Check-out
Stand for collimator
Misc. clean room
capital equipment
For clean room
Repair Century
recorder. CFE No.
SPO 5277 Repair
Memo Scope. Repair
Oscilloscope, repair
Oscilligraph.

30833

Duct System
Repair to CFE
" " "
" " "

✓ = Standard furniture for clean room (chairs, tables, cabinets, work benches, height gage). Why accept in view of the [] limitation, even though the [] didn't contemplate furnishings? STATINTL

✗ = Installation of underfloor duct system in clean rooms. Questionable - should be part of [] limitation. STATINTL